

To the Members of the California State Senate:

I am returning Senate Bill 210 without my signature.

Last year, I signed into law The Global Warming Solutions Act of 2006 (AB 32, Nunez/Pavley), which requires the California Air Resources Board (CARB) to adopt regulations for establishing a program of greenhouse gas emission limits and reduction measures. In furtherance of the goals prescribed in AB 32, on January 18, 2007, I signed Executive Order S-1-07, which called for the establishment of a Low Carbon Fuel Standard (LCFS) for transportation fuels sold in California.

Subsequently, CARB adopted the LCFS as a Discrete Early Action Measure within the scope of its implementation of AB 32. By doing so, it formally undertook the task of putting into full effect this important effort to reduce the carbon intensity of passenger vehicle fuels.

This bill attempts to codify the LCFS and adds some potentially meritorious provisions but does so in a manner that could seriously hinder the development, distribution and adoption of low-carbon fuels. Specifically, the failure to incorporate all of the provisions outlined in the Executive Order and in particular the authority for CARB to utilize market-based mechanisms in its implementation of the LCFS creates uncertainty about whether California is committed to a market-driven LCFS. That uncertainty could curtail the interest of entrepreneurs in bringing low-carbon fuels to market, reduce the availability of capital required to produce and distribute low-carbon fuels in a consumer-convenient fashion, and raise low-carbon fuel prices.

When combined with regulatory performance standards and in the context of a properly structured regulatory framework, market-based mechanisms are essential to the cost-effective production and development of low-carbon fuels and the infrastructures for widespread distribution of those fuels. Market mechanisms are indispensable to the implementation of the LCFS and accordingly the failure to include them in this bill is unacceptable.

Sincerely,

Arnold Schwarzenegger

